

J.C. Penney Company, Inc.  
1992 Annual Report

**FINANCIAL HIGHLIGHTS** (In millions except per share data)

<b>For the Year</b>	<b>1992</b>	1991	1990
<b>Retail sales</b>	<b>\$ 18,009</b>	\$ 16,201	\$ 16,365
<b>Net income</b>	<b>\$ 777</b>	\$ 80	\$ 577
<b>Earnings per share*</b>	<b>\$ 2.95</b>	\$ .20	\$ 2.16
<b>Dividends per common share*</b>	<b>\$ 1.32</b>	\$ 1.32	\$ 1.32
<b>Return on stockholders' equity</b>	<b>18.6%</b>	12.0%	13.3%

\*Adjusted for the two-for-one stock split declared on March 10, 1993.

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**THIS IS JCPENNEY**

JCPenney is a major retailer, with department stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, shoes, jewelry, accessories, and home furnishings.

## TO OUR STOCKHOLDERS:

It gives me great pleasure to report to you that 1992 was an exceptionally good year for your Company. In fact, earnings on a pre-tax basis reached an all time high at approximately \$1.3 billion. Total retail sales rose 11.2 per cent to \$18.0 billion, and net operating income climbed 47 per cent, to \$777 million.

Our '92 operating results, our strong financial condition, and our positive outlook for '93 prompted your Board of Directors at their March 10, 1993, meeting to declare a two-for-one stock split of the Company's common stock and increase the quarterly dividend. The regular quarterly dividend was increased by 9 per cent to 72 cents per share. The increase brings the indicated annual rate to \$2.88. On a split basis, the quarterly cash dividend was increased 3 cents to 36 cents per share, an indicated annual rate of \$1.44 per share.

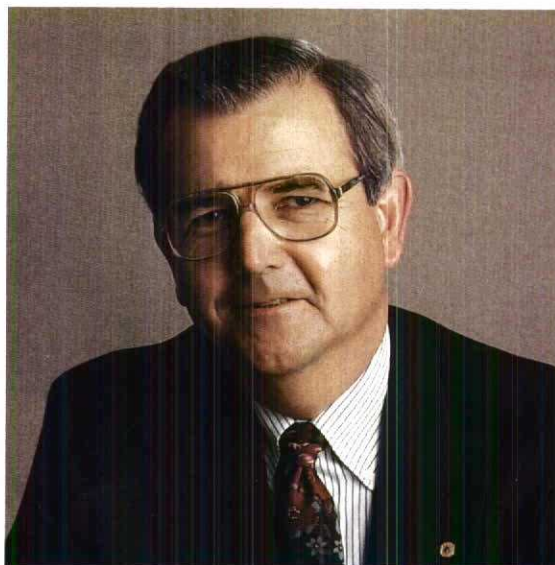
At this time last year, we said we were imbued with a sense of optimism. Happily, it was not unfounded. What then occasioned our positive attitude were two factors: first, the progress we had made in getting our merchandising in tune with the customers of the '90s, as reflected in our 1991 fourth quarter sales and earnings; second, the lifting of the clouds of economic uncertainty.

As we now know, the economy was stronger, particularly during the latter part of '92, than had been generally thought. Certainly the rising level of consumer confidence provided a more conducive climate for retailers. Far more important to our progress, however, were our own efforts. These were as fundamental as staying in stock with the most wanted sizes and colors for all our basic merchandise; emphasizing unit sales and gross profit dollars as opposed to markup; developing special or "smart" value merchandise and promoting it vigorously, including attractive, attention-getting signing in stores; and pricing our merchandise in such a way that our customers had an incentive to make purchases every time they came into our stores, not just when a sale was underway.

Our branding strategy, which focuses on developing well priced, fashionable, coordinated apparel and home lines, was also a major factor in our performance last year and is discussed elsewhere in this Report. We believe our new advertising campaign also helped boost sales. Introduced during the Academy Awards telecast on March 30, 1992, the commercials stress the Company's traditional commitment to value and contemporary approach to fashion and store ambiance.

All of our merchandise divisions had strong sales gains for the year. As compared with '91, markdowns were lower, shrinkage declined, and sales per gross square foot of store space rose substantially.

Catalog rebounded in 1992. Sales rose 5.5 per cent to \$3.2 billion, expenses declined, and profit increased significantly. More than 70 catalogs were issued, with those targeted to specialized audiences showing the greatest growth. As we look ahead, we expect that catalog



**William R. Howell, chairman of the board and chief executive officer.**

demand will benefit as a result of the discontinuance by Sears of its catalog operations. Fortunately, we are able to move a greater volume of business through our system without any additional investment in distribution center capacity or technology.

Both JCPenney Insurance and JCPenney National Bank achieved record levels of profitability in 1992.

Senior management changes took place on June 1 in conjunction with the retirement, after 39 years of service, of Robert B. Gill, who had been vice chairman since 1982 and chief operating officer of JCPenney stores and catalog since 1990. Elected by the Board and their new positions were: James E. Oesterreicher, president of JCPenney stores and catalog; W. Barger Tygart, senior executive vice president and director of merchandising, quality assurance and distribution; John T. Cody, Jr., executive vice president and director of JCPenney stores; Thomas D. Hutchens, executive vice president and director of merchandising; and J. Raymond Pierce, president of the men's division. All of these officers have had diverse responsibilities throughout their long careers with the Company.

Mr. Gill also retired from the Board of Directors along with two of our outside directors, William B. Ellinghaus, former president of American Telephone and Telegraph Company, and Clifton C. Garvin, Jr., former chairman and chief executive officer of Exxon Corporation. We thank all three gentlemen for their years of distinguished service to JCPenney.

Along with the significant rebound in our sales and earnings, '92 will be remembered as the year of our Home Office relocation from leased space in the Dallas area to our new building in Legacy Park in Plano. The move was accomplished in phases, with the first group of associates occupying their new space in August and the last group in mid-December. On January 12, we marked this milestone with a celebration for some 3,000 people that included our directors, major suppliers, and community leaders of the Dallas-Ft. Worth area. The following morning, under clear blue skies, we held the official ribbon cutting ceremony. We were extremely pleased to have among our guests Mr. J.C. Penney's two daughters, Carol Guyer and Mary Frances Wagley, who spoke eloquently about their father and his ideals. A third speaker who made a profound impact on the assembled crowd was Bob Yavitz, who has been a member of our Board of Directors for fifteen years. Bob is the Paul Garrett Professor of Public Policy and Business Responsibility and former Dean of the Columbia University Graduate School of Business. His remarks that morning struck exactly the right chord, as we have come to expect from him, and, with his concurrence, I am going to quote from them here:

*At a time when American business is often criticized for being short-sighted, non-competitive, and blandly bureaucratic, JCPenney stands out as a Company with a genuinely unique personality and culture. From my 15 year perspective on this Board, let me cite three distinct and admirable qualities of the Penney culture.*

*First, here is a Company which looks back to its past with pride — and looks forward to its future with confidence. Two recent celebrations provide a perfect illustration. Just a few months ago we held our Annual Meeting in Kemmerer, Wyoming, to celebrate the Company's 90th*



**Members of the Office of the Chairman: (From foreground, clockwise): Chairman William R. Howell; James E. Oesterreicher, executive vice president and director of JCPenney stores; Terry S. Prindville, executive vice president and director of support services; W. Barger Tygart, senior executive vice president and director of merchandising, quality assurance and distribution; Robert E. Northam, executive vice president and chief financial officer.**

*anniversary. A highlight of the meeting was our visit to Mr. Penney's original store — the store where it all began. Today, we are gathered here to celebrate the opening of this magnificent new Home Office. The contrast in size and technology is mind boggling! The total Penney enterprise of 1902 would fit comfortably inside the small museum located in the lobby of this building. The quaint wires and pulleys, which carried invoices across the original store, have been replaced by one of the nation's most advanced electronic communication networks.*

*Second, JCPenney is a Company dedicated to long-term performance and results. It has the courage to tackle the issues which shape its very future, rather than those which are easy to deal with, or which yield instant, if not lasting, gratifications. The Company's impressive performance in 1992 — in the face of an extremely difficult economic climate — is the result of more than a decade's vision and sustained effort. A long-term strategy of repositioning and renovation of Penney operations has been persistently implemented.*

*Third, the Penney Company operates under a unique managerial system and leadership style. The notion that all members of the Penney organization are associates, who share a mutual interest in the enterprise, can be traced all the way back to Mr. Penney's first store. It is a notion the Company has applied and practiced long before the social scientists and so-called "motivational experts" discovered it in the '40s.*

*It should, therefore, come as no surprise that JCPenney can serve as a model of good corporate governance. Our Board and management are deeply committed to the long term interests of our shareholders. We are also keenly aware of our responsibilities to communities in which we operate. The Penney Board of Directors and its senior management take their respective roles seriously and conscientiously. It has been truly gratifying to observe the harmonious and effective working relationship between Board and management in my 15 year tenure.*

*My thanks to Bob and to all of you — stockholders, customers, associates, suppliers, and friends of the Penney Company — for making 1992 a banner year all around.*

Warmest regards,



William R. Howell  
Chairman of the Board and  
Chief Executive Officer  
March 29, 1993

## MERCHANDISE DEVELOPMENT ORGANIZATION

To sharpen our competitive edge, JCPenney created a Merchandise Development Organization three years ago. Our mission: to build Penney's private brands into coordinated merchandise collections to compete with dominant national brands. Our strategic direction: to court long term customer loyalty by continuing to improve the components of the merchandise value equation – the right fashion, the right quality, the right price. An underlying advantage was an opportunity to leverage JCPenney's buying power by developing our own product specifications and taking them directly to the mill or factory.

The Company systematically set about structuring an organization to implement strategy. Now brand management teams develop products and ensure consistency and integrity for all private brand merchandise across all subdivisions. Our merchandising teams meet seasonally to determine the mix between JCPenney private brands and national brands that best serves our customer base and to translate what's happening in the marketplace to the brand to keep the brand fresh yet true to character. The process is continuously monitored, with the ultimate goal of improving efficiency and enhancing the value equation for the consumer.

The Merchandise Development Organization continues to evolve, but it has already impacted the bottom line. The next step is to communicate the twin messages of the exclusivity and intrinsic value of Penney brands. To that end, a special advertising campaign has been formatted to take awareness of six brands – Worthington®, Stafford®, The Original Arizona Jean Company®, Hunt Club®, By Design™, and Classic Traditions® – to the level of household name recognition, honing further still JCPenney's competitive edge.

Two critical components of brand development are Quality Assurance and International Sourcing.

**QUALITY ASSURANCE** The Company has championed quality since its inception when merchandise testing was undertaken on the road by a single buyer – James Cash Penney himself – testing fabric samples in a hotel washbasin. Today, JCPenney Quality Assurance boasts a fleet of technical experts operating out of 22 domestic and 14 international offices, who conduct as many as 35,000 product tests, 3,000 factory evaluations, and 50,000 merchandise quality audits a year.



**Left to right: Merchandise testing specialist Yrenio Carrera and executive vice president and director of merchandising, Thomas D. Hutchens.**

Mr. Penney saw the need to systematize product testing when the Company began to develop proprietary brands in the 1920s. A laboratory was established to assure consistently high quality of Penney brands, with non-private brands held to the same high standards. Some 60 years later, Mr. Penney's "laboratory" has evolved into a 50,000 square foot, state-of-the-art Merchandise Testing Center in Carrollton, Texas, where high technology engineers and textile research chemists test everything from furniture to footwear. We know of no other retailer in this country that devotes as many resources to protecting quality as JCPenney.

To assure the excellence of Penney's own merchandise, the Quality Assurance Department designed the COMPARE program, which pits our private brand merchandise against competitive products in a battery of performance tests. To safeguard quality across the board, Quality Assurance issues guidelines to suppliers in the form of a 100 page manual, available in six languages, then systematically evaluates on site its suppliers' manufacturing facilities,



**Left to right: W. Barger Tygart, senior executive vice president and director of merchandising, quality assurance and distribution, and senior merchandise testing technician, Kathy Moeder.**

domestic and foreign. Results are discussed with the supplier, then streamed through an interactive computer to International Sourcing and to the brand management team/buyer in Dallas.

Merchandise inspections are made by Quality Assurance representatives who conduct statistical audits at suppliers' distribution facilities. Items which fall short must be corrected by the supplier before they may be shipped. Buyers are kept up to date by means of on-line computer reports, which contain the results of every audit, as well as the supplier's performance ratings on packaging, labeling, sizing, and merchandise testing.

The bottom line of this massive effort to control quality is customer satisfaction, but there are other benefits. Reduced returns of merchandise. Better informed buyers. More knowledgeable brand managers. And last but not least, the favorable impact on sales and profits.

**INTERNATIONAL SOURCING** The role of International Sourcing, performed by JCPenney Purchasing Corporation, is not to increase imports

but to buy smarter for the customer's sake. In other words, JCPenney buys

offshore when it is to the consumer's advantage, either because of price or availability, but always to bring the best value to the customer.

JCPenney Purchasing Corporation is headquartered in Plano, Texas. Structurally, it is divided into five world regions: North Asia; South Asia; Europe and Africa; the Western Hemisphere; and Mexico. Within these territories are eight liaison offices: Hong Kong, Taipei, Osaka, Seoul, Bangkok, Singapore, Bombay, and Florence. Organizationally, International Sourcing serves as the sourcing and operations leg of a merchandising triad that includes brand management/buyers and Quality Assurance.



**Left to right: Kenneth M. Ward, merchandise testing specialist, and Gale Duff-Bloom, senior vice president and associate director of merchandising.**

The sourcing process begins when JCPenney Purchasing Corporation locates a factory or supplier capable of meeting the Company's rigid production requirements. It ends with merchandise cleared through U.S. Customs and delivered to the appropriate distribution center. Along the way, a complex series of checks and balances assures quality control, timely shipments, and trade compliance. Vital to the process is the market representative, a highly qualified, bi- or multilingual product specialist based in one of the JCPenney Purchasing Corporation liaison offices. As the communications link between the Home Office and the foreign supplier, the market rep is responsible for supporting all stages of the sourcing process from conceptual design to final contract.

A new, sophisticated computer network facilitates communications for JCPenney Purchasing Corporation: product photographs are electronically shuttled between continents via still image transmission; the system processes and stores all contractual and letter of credit information, prints contracts and letters when signed, and automatically transfers copies to all concerned. This advanced technology provides speed – a key ingredient in fashion retailing. Sourcing internationally allows us to offer products of exceptional value from the world over.



**Left to right: John T. Cody, Jr., executive vice president of JCPenney stores, and merchandise testing analyst Patty Stapp.**



**Left to right: Anton C. Haake, vice president and director of quality assurance, and Kenneth T. Russo, vice president and director of international sourcing.**

## WOMEN'S DIVISION

**T**he Women's Division took an existing brand, Worthington®, and repositioned it to fill a void in the marketplace. While there was a proliferation of *casual* clothing labels in the mall, no retailer was merchandising a complete *career* apparel private brand at Worthington price points. JCPenney seized the opportunity to build a line that would cover the entire spectrum of career clothing and accessories – from jackets and skirts, to suits, to dresses, to hats, to shoes, to outerwear, as well as to fashion jewelry – targeted at the career woman who wants style with longevity and versatile outfits for work.

We wanted to enhance Worthington's image by creating a more focused assortment of merchandise with fashion appeal and a consistent character, so that the customer could quickly recognize the brand. We wanted to build brand loyalty. Ultimately, we wanted to make Worthington a "destination brand." Our customer was to find moderately priced separates of exceptional value. Classically styled timeless clothes that work. She was to discover how easy it is to assemble a wardrobe without paying the higher prices of national brand apparel lines. She was to enjoy the convenience and visual appeal of related merchandise pulled together in a shop environment.

Once the brand building process was set in motion, the brand managers worked with researchers, technical designers, mills, and pattern specialists to determine fabrics, styles, and fits that satisfy the Worthington brand mission statement. Prototypes were constructed and turned over to the buyers for review. The

buyers, freed up from product development, spent time selecting the merchandise, communicating with stores and catalog, and negotiating costs, in order to give the consumer the best value. Sourcing opportunities were explored. Quality Assurance tested fabrics for dyestuff, tensile strength, shrinkage, and washability. Visual elements relating to the line, from advertising to display, from fixturing to hangtags, carried a consistent, identifiable look.

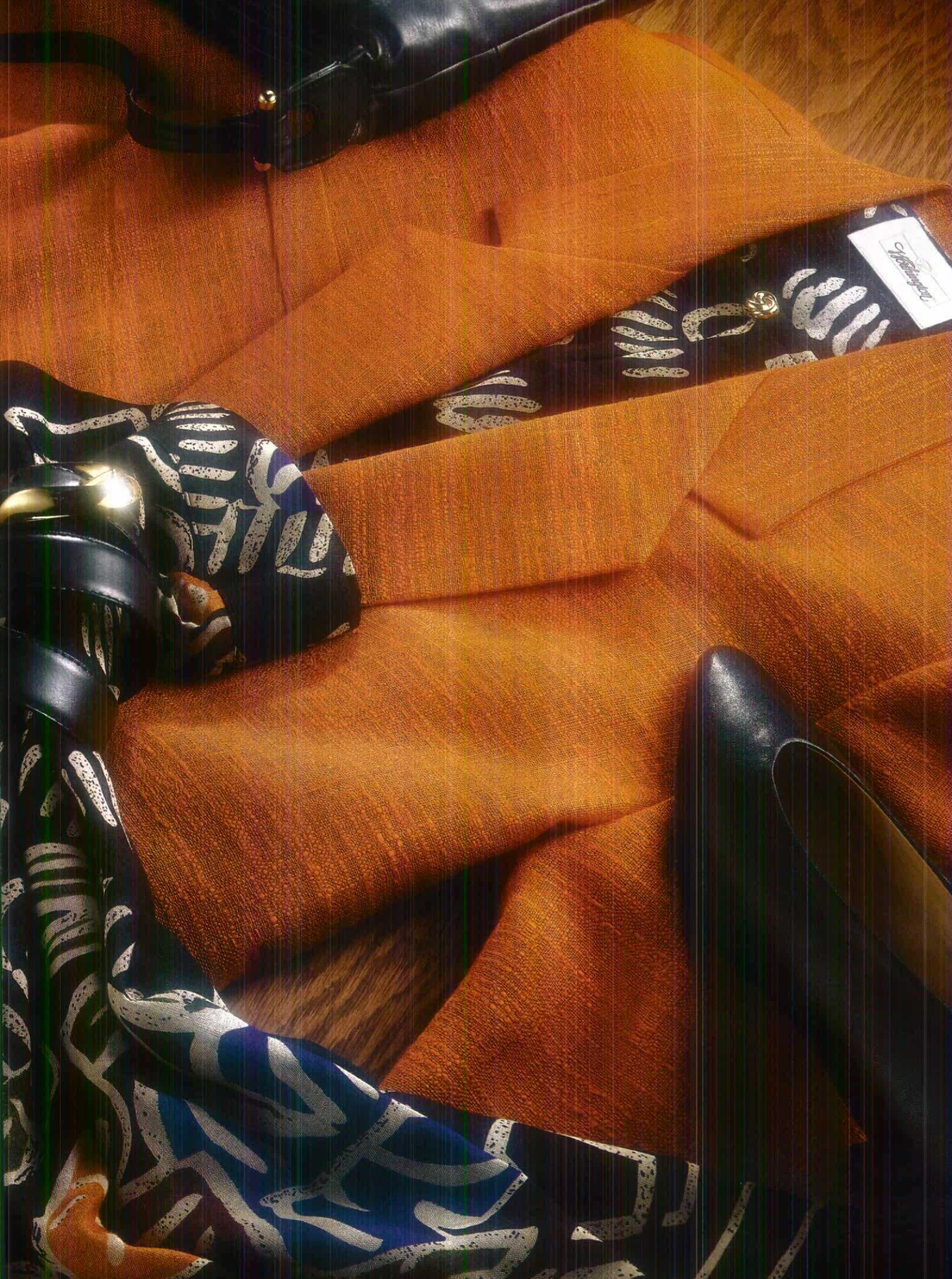
Today, Worthington is the number one women's career private brand in the marketplace. Our consistent, focused attention to upgrading the Worthington brand in its myriad aspects, from fabrication to fashionability, sets Worthington apart and keeps the customer coming back for more.



**Left to right: Donald F. Scaccia, vice president and director of merchandise development, and James L. Hailey, president, women's division.**



**Left and facing page: Worthington® offers a total coordinated look for spring.**



## CHILDREN'S DIVISION

**T**he Original Arizona Jean Company® is a multi-divisional brand encompassing men's, women's, and children's wear, supported by in-store shops in each area. The development of The Original Arizona Jean Company is a paradigm of how private brands are designed to integrate merchandise from various categories into a coordinated collection and how the Company evolved from an imitation mentality in the '70s to an innovative mindset in the '90s.

More than 15 years ago, JCPenney developed a proprietary jeanswear brand, Plain Pockets, the precursor of Arizona Jean Company, by copying a Levi jean product, line for line. With the establishment of the brand management organization, a decision was made to create in-house from scratch a new jeanswear brand built around a basic pair of five pocket jeans to go head to head with key national brands. The label was to be upscale in look and appeal, and it was to complement Levi, not compete with it. It was to be a full apparel brand – an entire range of coordinates:

outerwear, shirts, belts, boots, sweaters, and

fleece. It was to have as many

extra embellishments as any national brand, but at sizable

savings. Researchers conducted mall intercepts to record consumer reaction to brand name ideas. The name

The Original Arizona Jean Company proved to have high "aided awareness;" that is, consumers believed the Arizona Jean Company brand already existed, so it had built-in

recognition value. Over the course of a year, the concept was

refined, and a mission statement formulated. A brand profile emerged: The Original Arizona Jean Company was born as a

traditional, authentic jeanswear label with rugged fashion details, updated for the '90s, an all-American personality.

Once its character was formed, the brand management team

utilized a MacIntosh computer program to design the

logo, labels, and packaging that visually project the brand persona.

Once the design process was activated, the

Company used a significant number of state-of-the-art

software packages to speed up design. The in-house

apparel designer styles and colors with help from a

Computer Assisted Design program (CAD) and a four

color process inkjet printer which can produce up to

250,000 different colors. Utilizing another CAD application,

the apparel specialist works up a package that specifies everything from construction guidelines to the shrinkage factor,

and from the placement of zippers to the number of times the fabric must be brushed. After clearance through the Testing Center, the product is ready for manufacture.

The Original Arizona Jean Company is entering its fourth generation with sales exceeding \$300 million. The line will be freshened seasonally to keep it "young" and stylish and competitive.



**Left to right: Peter M. McGrath, vice president and director of merchandise development, and Henry H. Scott, president, children's division.**



**Left: girls' denim shorts in a range of fashion colors. Facing page: basic denim rugged wear for boys and girls, all by The Original Arizona Jean Company.®**



## MEN'S DIVISION

**A** crucial function of the brand management organization is the development of the fabrication for proprietary products. The planning and implementation of the Stafford® Comfort Fit trouser illustrate the way in which brand managers and buyers team up to develop a specific product, starting with the fabric.

The Men's merchandising team uncovered a need in the marketplace for a very comfortable, high-quality, tailored dress trouser for men that would combine the virtues of wool with the ease and performance of polyester. Together, the brand management team and the Men's trouser buyer conceived the Comfort Fit trouser. It was to be fabricated of a polyester/worsted wool blend and styled with the personality traits of JCPenney's best-selling Stafford brand, which is designed to meet the tailored wardrobe needs of businessmen.

The next step was to research whether any of the major fabric mills could produce a high performance worsted wool blend fabric. Burlington Industries, the leading menswear fabric mill in the United States, was contacted. Our goal was to introduce the Stafford Comfort Fit trouser in the Spring of 1993. The brand management team defined to Burlington its stringent specifications: The fabric must

combine explicit percentages of worsted wool and polyester. It must maintain the aesthetics of a worsted wool fabric while enhancing the comfort factor with stretch. It must pass the rigid performance requirements of the Testing Center. And, the fabric must be competitively priced so that the trouser could retail for \$50.

Burlington utilized breakthrough technology to produce the new fabric and meet deadline. While the mill made samples, the JCPenney brand management team was busy developing the visual elements that identify the brand – labels, hangtags, point-of-sale materials. The Company conducted consumer focus group sessions to determine a name for the product. Stafford Comfort Fit scored highest.

During final stages of fabric development, the brand management team worked with the manufacturer on specifications for construction and fit. Together, they devised a new trouser feature – a unique waistband which allows for maximum comfort by expanding up to an inch without compromising appearance. A final prototype trouser was completed and sent to the Testing Center for evaluation. It passed with flying colors. Meanwhile, the buying department initiated a test to

predict consumer acceptance by shipping limited quantities to selected markets. Results were so positive that the exclusive trouser is now in some 700 JCPenney stores.



**Left to right: J. Raymond Pierce, president, and Joseph P. Sapientza, vice president and director of merchandise development, men's division.**



**Left: Stafford® shirts and ties for every occasion. Facing page: the Stafford man will be right in style with this black and white outfit for spring.**



## HOME AND LEISURE DIVISION

**T**he Home and Leisure Division has taken brand development across product categories to a new dimension — the coordination of softgood lines, such as linens and draperies, with hard goods such as furniture and decorative accessories.

The value edge in the Home Division is Color Forum™, a disciplined design and color coordinated merchandise system that links all private brand merchandise through a unified color palette. This means that the color Tea Rose in ceramic bath accessories coordinates with the color Tea Rose in toweling. Color compatibility makes it simple for customers to coordinate their home furnishings across merchandise categories and for sales associates to build profitable multiple sales. While competitors deal with a variety of manufacturers, designers, and brands whose products are based on numerous color palettes, the Home Division's brand development team works directly with manufacturers to assure color consistency across product lines.

Penney researchers identified three specific customer types in Home: Updated, Traditional, and Conservative. The Updated personality is perceived as a fashion conscious, frequent shopper who experiments with trends. The Traditionalist prefers style with longevity and avoids fads. The Conservative customer wants well made basics at a fair price. All want quality. In response to the expectations of these diverse customer types, brand managers developed three separate private brands: By Design™ for Updated, Classic Traditions® for Traditional, and Home Collection™ for Conservative consumers.

Each brand has a very specific profile and a visual signature that projects this personality to the customer. Moreover, newly designed fixtures enhance brand segmentation on the selling floor and house a broad range of related merchandise — shams, comforters, and accessories — inviting the shopper to add to her planned purchase. Photographs on the package, which depict richly accessorized residential environments, convey a fountain of decorating ideas to the customer. Catalog, preprints, decorating magazine advertising, and other marketing communications reinforce brand identities.

The force of Penney's Home brand personalities combined with the uniqueness of Color Forum gives JCPenney a powerful advantage in an era when the home is increasingly the focus of self expression.



**Left to right: James J. Kennedy, president, and Kay E. Egan, vice president and director of merchandise development, home and leisure division.**



**Left: 100% cotton towels by By Design.™ Facing page: "Tara" bedding coordinate by Classic Traditions.®**



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

<b>Results of operations</b> (In millions except per share data)	<b>1992</b>	<b>1991</b>	<b>1990</b>
Retail sales, per cent increase (decrease).....	<b>11.2</b>	(1.0)	1.6
Gross margin, per cent of retail sales			
FIFO .....	<b>33.0</b>	32.5	33.3
LIFO .....	<b>33.1</b>	33.1	33.0
Selling, general, and administrative expenses, per cent of retail sales .....	<b>28.6</b>	30.4	30.6
Profits of other businesses .....	<b>\$ 138</b>	\$ 88	\$ 62
Effective income tax rate .....	<b>38.3</b>	43.5	30.6
Net income <sup>1</sup> .....	<b>\$ 777</b>	\$ 80	\$ 577
Per share <sup>1,2</sup> .....	<b>\$ 2.95</b>	\$ .20	\$ 2.16

<sup>1</sup>Excluding the effects of nonrecurring items and the cumulative effect of an accounting change, after tax income was \$528 million or \$2.00 per share in 1991.

<sup>2</sup>Adjusted for the two-for-one stock split discussed on page 16.

**Net income** was \$777 million in 1992, an increase of 47.2 per cent from \$528 million in 1991, excluding the impact in 1991 of nonrecurring items and the cumulative effect of an accounting change. On a comparable basis, fully diluted earnings per share improved to \$2.95 per share from \$2.00 per share in 1991. Increased sales volume and unit sales, resulting from the shift in the Company's strategy to more affordable pricing, were largely responsible for the improvement. Contributing to increased profits were tight controls over selling, general, and administrative expenses. These expenses, as a per cent of retail sales, declined significantly in 1992.

Net income was \$80 million in 1991 and fully diluted earnings per share was 20 cents. Net income in 1991 was reduced by a provision for nonrecurring items and the cumulative effect of an accounting change. Nonrecurring items in 1991 amounted to \$395 million before income taxes, and reflected certain changes in strategy. The Company made a strategic business decision in 1991 to hold only regional shopping center joint ventures in its real estate investment portfolio and to dispose of all other projects as soon as practicable. As a result of this decision, a provision of \$220 million was made to record the costs to dispose of the properties the Company planned to exit. Also, in 1991, a decision was made to downsize or discontinue several non-core retail operations. This decision reflected a change in business strategy to deemphasize experimental businesses and to focus on the Company's core business, resulting in a provision of \$115 million. In addition, nonrecurring items included a provision of \$60 million for the costs associated with consolidating and streamlining various Company activities. In 1992, the Company made significant progress in disposing of its non-regional shopping center properties, closing unproductive stores, and implementing cost cutting measures. In 1991, the Company adopted Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, that resulted in a one-time charge to earnings of \$184 million, net of taxes, or 79 cents per share.

Excluding the effects of the nonrecurring items and the cumulative effect of an accounting change in 1991, income declined 8.5 per cent to \$528 million from \$577 million in 1990. The decline in 1991 was due to a 1.0 per cent decline in sales volume and an increase in the income tax rate. On a comparable basis, earnings per share declined from \$2.16 in 1990 to \$2.00 in 1991.

The decline in net income in 1990 to \$577 million from \$802 million in 1989 was primarily due to weakened consumer demand and a substantial increase in the LIFO reserve. Earnings per share declined to \$2.16 in 1990 compared with \$2.93 per share in 1989.

<b>Revenue</b> (In millions)	<b>1992</b>	Per cent increase (decrease)	<b>1991</b>	Per cent increase (decrease)	<b>1990</b>
JCPenney stores.....	<b>\$13,460</b>	12.1	\$12,007	(0.3)	\$12,048
Catalog .....	<b>3,166</b>	5.5	3,002	(6.8)	3,220
Drug stores .....	<b>1,383</b>	16.0	1,192	8.6	1,097
Total retail sales* .....	<b>18,009</b>	11.2	16,201	(1.0)	16,365
JCPenney Insurance .....	<b>388</b>	18.3	328	28.6	255
JCPenney National Bank .....	<b>118</b>	(1.1)	119	2.6	116
Finance charge revenue .....	<b>570</b>	(12.0)	647	(3.9)	674
Total revenue .....	<b>\$19,085</b>	10.3	\$17,295	(0.7)	\$17,410

\*Excluding the 53rd week in 1992, total retail sales increased 9.8 per cent.

**Sales** of all JCPenney stores in the 53 weeks of 1992 increased 12.1 per cent while comparable store sales increased 10.9 per cent. The double digit sales gain was primarily the result of the Company's strategy to shift to more affordable pricing, a new national television advertising campaign, and the Company's emphasis in balancing its merchandise assortment with increased emphasis on its branding strategy. By division, JCPenney store sales increased approximately 13 per cent in women's, 14 per cent in men's, 13 per cent in children's, and 10 per cent in home and leisure. On a 52 week basis, sales for JCPenney stores increased 10.9 per cent in 1992 and comparable store sales increased 9.7 per cent.

Catalog sales increased 5.5 per cent in 1992. Lower prices, a reduction in returns, and changes in marketing and merchandising strategies were largely responsible for the increase in catalog sales.

Drug store sales increased 16.0 per cent in 1992 primarily as a result of higher mail order pharmacy sales.

JCPenney Insurance experienced record levels of life and health premiums and profitability in 1992 through the expansion of its customer base, an improved policy renewal rate, and well managed operating expenses.

Finance charge revenue arising from JCPenney credit card customer receivables decreased 12.0 per cent in 1992 to \$570 million. The decline was due to a lower utilization of the JCPenney credit card and faster repayments by customers resulting in lower average customer account balances. In 1991, finance charge revenue decreased 3.9 per cent to \$647 million and in 1990 increased 3.2 per cent to \$674 million.

**Gross margin** on a FIFO basis, as a per cent of retail sales, improved 50 basis points to 33.0 per cent in 1992 from the previous year due to a reduced level of markdowns resulting from lower initial prices. This ratio declined in 1991 as compared to 1990 due to increased markdowns in the first half of 1991. The decline in this ratio in 1990 as compared to 1989 was primarily due to the slowdown in consumer spending, particularly in the second half of 1990.

In 1991, based on its strategy to lower retail prices, the Company elected to apply an internally developed LIFO index (rather than one prepared by the U.S. Government for all department stores) to measure more accurately increases and decreases in JCPenney retail prices. Because of the shift to more affordable retail prices, there was deflation in the Company's LIFO index in 1992 and in 1991. As a result, there was a LIFO credit of \$32 million in 1992 as compared to a credit of \$91 million in 1991 and a LIFO charge of \$49 million in 1990.

Gross margin on a LIFO basis, as a per cent of retail sales, was 33.1 per cent in 1992 and 1991. This ratio improved slightly in 1991 as compared to 1990 and declined to 33.0 per cent in 1990 from 34.8 per cent in 1989 due to a \$91 million increase in the LIFO charge.

**SG&A expenses** increased 4.8 per cent in 1992 as a result of higher salaries and personnel related costs resulting from increased sales volume and planned increases in advertising associated with a national television advertising campaign and increased distribution of circulars. Advertising expense for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was \$503 million in 1992, as compared with \$398 million in 1991 and \$416 million in 1990. SG&A was favorably impacted by the Company's efforts to manage costs, lower bad debt expense, and the streamlining of operations. SG&A expenses declined in 1991 by 1.5 per cent, reflecting the Company's efforts to reduce costs across all operating and support areas. SG&A expense dollars increased 4.5 per cent in 1990 reflecting higher bad debt expense, fixture depreciation, and health care costs.

SG&A expenses, expressed as a per cent of retail sales, declined in 1992 to 28.6 per cent from 30.4 per cent in 1991 as a result of higher sales volume and well managed expenses. In 1991, the SG&A expense ratio declined to 30.4 per cent from 30.6 per cent as a result of lower expenses due to the Company's efforts to control costs. In 1990, the SG&A expense ratio increased from 29.7 per cent in 1989 due to lower sales volume.

**Interest expense**, at \$258 million in 1992, declined by 16.4 per cent as a result of a debt restructure program (described on page 16) initiated to take advantage of lower interest rates. Interest expense in 1991 was \$308 million, relatively flat compared with the preceding year in both dollars and as a per cent of retail sales.

**The effective income tax rate** for 1992 was 38.3 per cent as compared with 43.5 per cent in 1991 and 30.6 per cent in 1990. The 1992 rate declined from 1991's rate primarily due to the \$21 million charge to income tax expense in 1991 for prior years' tax audit adjustments. The effective income tax rate for 1991 increased from the prior year's level primarily due to the audit adjustments in 1991 and the reduction in 1990 of \$52 million in tax expense due to the repayment of taxes on installment sales previously deferred at higher tax rates.

The Financial Accounting Standards Board issued Statement No. 109, *Accounting for Income Taxes*, in 1992. The standard is effective beginning in fiscal year 1993, at which time the Company will adopt it. The Company expects the implementation of this accounting standard to result in a reduction of deferred taxes reflected on the balance sheet of approximately \$40 to \$60 million, and an increase of stockholders' equity by the same amount. Additionally, this standard will improve the 1993 effective income tax rate slightly by the tax effect of dividends on allocated leveraged employee stock ownership plan (LESOP) shares. However, if the proposed corporate tax rate increase from 34 to 36 per cent is enacted, the effective tax rate will increase in 1993. For further information, see page 29.

**Financial position.** The Company generated \$1,440 million in cash from operating activities in 1992 as compared with \$867 million in 1991 and \$1,013 million in 1990. After deducting capital expenditures, dividends, and sales of customer receivables transactions, free cash flow increased to a record \$681 million in 1992 from \$224 million in 1991. The primary contributions to increased free cash flow in 1992 were higher net income and declines in customer accounts receivable.

Total customer receivables serviced by the Company were \$4.0 billion at the end of 1992, \$411 million or 9.3 per cent below the level at the end of 1991. The decline in 1992 customer receivables

served reflects a continuation of the reduction in the utilization of the JCPenney credit card, increased usage of third party credit cards, as well as faster repayments by customers. Customer receivables serviced by the Company totaled \$4.4 billion at the end of 1991, \$413 million or 8.6 per cent below the level at the end of 1990. The decrease in 1991 further reflected lower sales. Customer receivables serviced were \$4.8 billion at the end of 1990, or 6.4 per cent above the level at the end of 1989.

Merchandise inventories, on a FIFO basis, increased to \$3.5 billion in 1992, up 10.2 per cent from 1991 and in line with recent sales volumes and the acceleration of spring merchandise shipments. The Company has continued its efforts to balance its merchandise with an appropriate combination of value and fashion. FIFO inventories increased 4.9 per cent in 1991, and increased 3.1 per cent in 1990.

Net property, plant, and equipment, at \$3.7 billion, was \$123 million above the level of the preceding year. Capital expenditures in 1992 were \$453 million, \$62 million below 1991. Capital expenditures were \$637 million in 1990. The Company presently expects capital expenditures of approximately \$500 million in each of the next three years.

Other assets, at \$2.9 billion, increased \$645 million in 1992, an increase of 29.0 per cent. The primary reason for the increase was a \$419 million investment in asset-backed certificates issued by the JCP Master Credit Card Trust and a \$176 million increase in the assets of JCPenney Insurance due to significant growth.

Accounts payable and accrued expenses increased 28.4 per cent to \$2.1 billion in 1992 primarily as a result of the increase in trade accounts payable due to the \$361 million increase in merchandise inventories. Accounts payable and accrued expenses were \$1.6 billion in 1991 and \$1.7 billion in 1990.

During 1992, the Company initiated a program to restructure its debt portfolio to take advantage of declining interest rates. Under the debt restructure program, \$389 million of long term debt maturing between 1995 and 2002 was called and the Company made open market purchases totaling \$34 million of its 8.375 per cent notes due in 1996. In addition, \$102 million of 10.8 per cent EuroYen notes and \$150 million of zero coupon notes, with a yield to maturity of 13.5 per cent, matured and were repaid. In August 1992, the Company issued \$250 million of 8.25 per cent sinking fund debentures due 2022. Shortly after the issuance of the 8.25 per cent debentures, the Company entered into interest rate swap contracts with a notional principal amount totaling \$250 million. Under these contracts, the Company makes payments based on a floating interest rate in exchange for receiving payments based on a fixed interest rate over the four-year life of the contracts. These interest rate swap contracts are intended to lower the cost of the 8.25 per cent sinking fund debentures. In 1991, the Company issued \$250 million of 9.05 per cent notes due 2001 and \$250 million of 9.75 per cent sinking fund debentures due 2021. In 1990, the Company issued \$250 million of 10 per cent notes due 1997 and \$250 million of 9.45 per cent notes due 2002. In 1992, the Company adopted Financial Accounting Standards No. 107, *Disclosure about Fair Value of Financial Instruments*. The fair value of the Company's long term debt is disclosed on page 23.

Total debt at year end included \$447 million of borrowings by the LESOP, which is guaranteed by the Company. The source of funds to repay the LESOP debt will be dividends from the Series B preferred stock and cash contributions by the Company, totaling approximately \$50 million semi-annually through July 1998.

Stockholders' equity was \$4.7 billion at the end of 1992, an increase of \$517 million from the previous year due primarily to the increase in net income.

On March 10, 1993, the Board of Directors declared a two-for-one split of the Company's common stock and increased the quarterly dividend. Both the stock split in the form of a stock dividend and the increased cash dividend will be payable on May 1, 1993 to stockholders of record on April 12, 1993. The regular quarterly dividend on the Company's outstanding common stock was increased to 72 cents per share from 66 cents per share, or an indicated annual rate of \$2.88 compared with \$2.64 per share in 1992. On a split basis, the quarterly cash dividend was increased 3 cents to 36 cents per share, or an indicated annual rate of \$1.44. Financial data in this Annual Report has been restated to reflect the stock split. At the same meeting, the Board approved, subject to stockholders' approval, a new "1993 Equity Compensation Plan," under which 11.6 million shares of common stock will be reserved for issuance.

The Company anticipates that the major portion of its cash requirements during the next few years to finance its operations, store updating, and expansion will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

**Impact of inflation and changing prices.** The impact of inflation on the Company has lessened in recent years as the rate of inflation has declined. Inflation causes increases in the cost of doing business, including capital expenditures. The effect of rising costs cannot always be passed along to customers by adjusting prices because of competitive conditions. By striving to control costs, the Company attempts to minimize the effects of inflation on its operation.

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 30, 1993, January 25, 1992, and January 26, 1991, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 30, 1993, January 25, 1992, and January 26, 1991, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed on page 27, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, in 1991. Also, as discussed on page 22, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories in 1991.

*KPMG Peat Marwick*

KPMG Peat Marwick  
200 Crescent Court, Dallas, Texas 75201  
March 10, 1993

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears above. This audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the audit plans, scope, fees, and audit results of the auditors; internal audit reports on the adequacy of internal controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.



William R. Howell  
Chairman of the Board  
and Chief Executive Officer



Robert E. Northam  
Executive Vice President  
and Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

## COMPANY STATEMENT ON FINANCIAL INFORMATION

# **CONSOLIDATED STATEMENTS OF INCOME**

(In millions except  
per share data)

J.C. Penney Company,  
Inc. and Subsidiaries

For the Year	1992	1991	1990
<b>Revenue</b>			
Retail sales .....	\$ 18,009	\$ 16,201	\$ 16,365
Finance charge revenue .....	570	647	674
Other revenue .....	506	447	371
<b>Total revenue</b> .....	<b>19,085</b>	<b>17,295</b>	<b>17,410</b>
<b>Costs and expenses</b>			
Cost of goods sold, occupancy, buying, and warehousing costs .....	12,040	10,841	10,969
Selling, general, and administrative expenses .....	5,160	4,924	4,999
Costs and expenses of other businesses .....	368	359	309
Interest expense, net .....	258	308	301
Nonrecurring items .....	—	395	—
<b>Total costs and expenses</b> .....	<b>17,826</b>	<b>16,827</b>	<b>16,578</b>
<b>Income before income taxes and cumulative effect of accounting change</b> .....	<b>1,259</b>	<b>468</b>	<b>832</b>
Income taxes .....	482	204	255
<b>Income before cumulative effect of accounting change</b> .....	<b>777</b>	<b>264</b>	<b>577</b>
Cumulative effect of accounting change for postretirement health care benefits, net of income taxes of \$116 .....	—	184	—
<b>Net income</b> .....	<b>\$ 777</b>	<b>\$ 80</b>	<b>\$ 577</b>
<b>Earnings per common share</b>			
<b>Primary</b>			
Income before cumulative effect of accounting change .....	\$ 3.15	\$ .99	\$ 2.30
Cumulative effect of accounting change for postretirement health care benefits .....	—	(.79)	—
<b>Net income</b> .....	<b>\$ 3.15</b>	<b>\$ .20</b>	<b>\$ 2.30</b>
<b>Fully diluted</b>			
Income before cumulative effect of accounting change .....	\$ 2.95	\$ .99	\$ 2.16
Cumulative effect of accounting change for postretirement health care benefits .....	—	(.79)	—
<b>Net income</b> .....	<b>\$ 2.95</b>	<b>\$ .20</b>	<b>\$ 2.16</b>

See Notes to Consolidated Financial Statements on pages 21 through 30.

<b>Assets</b>	<b>1992</b>	<b>1991</b>	<b>1990</b>
<b>Current assets</b>			
Cash and short term investments of \$375, \$100, and \$128 .....	\$ 397	\$ 111	\$ 137
Receivables, net .....	3,161	3,525	3,720
Merchandise inventories .....	3,258	2,897	2,657
Prepaid expenses .....	154	162	168
<b>Total current assets</b> .....	<b>6,970</b>	<b>6,695</b>	<b>6,682</b>
<b>Properties, net</b> .....	<b>3,725</b>	<b>3,602</b>	<b>3,500</b>
<b>Other assets</b> .....	<b>2,868</b>	<b>2,223</b>	<b>2,143</b>
	<b>\$ 13,563</b>	<b>\$ 12,520</b>	<b>\$ 12,325</b>

#### **Liabilities and Stockholders' Equity**

<b>Current liabilities</b>			
Accounts payable and accrued expenses .....	\$ 2,095	\$ 1,630	\$ 1,672
Short term debt .....	907	471	904
Current maturities of long term debt .....	—	237	75
Deferred taxes .....	75	71	11
<b>Total current liabilities</b> .....	<b>3,077</b>	<b>2,409</b>	<b>2,662</b>
<b>Long term debt</b> .....	<b>3,171</b>	<b>3,354</b>	<b>3,135</b>
<b>Deferred taxes</b> .....	<b>831</b>	<b>793</b>	<b>1,021</b>
<b>Other liabilities</b> .....	<b>1,779</b>	<b>1,776</b>	<b>1,113</b>
<b>Stockholders' equity</b>			
Preferred stock, without par value:			
Authorized, 25 million shares—			
issued, 1 million shares of Series B LESOP			
convertible preferred .....	666	684	697
Guaranteed LESOP obligation .....	(447)	(509)	(566)
Common stock, par value 50¢:			
Authorized, 500 million shares—			
issued, 234 million shares .....	955	857	850
Reinvested earnings .....	3,531	3,156	3,413
<b>Total stockholders' equity</b> .....	<b>4,705</b>	<b>4,188</b>	<b>4,394</b>
	<b>\$ 13,563</b>	<b>\$ 12,520</b>	<b>\$ 12,325</b>

See Notes to Consolidated Financial Statements on pages 21 through 30.

<b>Reinvested earnings at beginning of year</b> .....	<b>\$ 3,156</b>	<b>\$ 3,413</b>	<b>\$ 3,403</b>
Net income .....	777	80	577
Unrealized change in equity securities .....	(1)	5	—
Retirement of common stock .....	—	—	(210)
Redemption of preferred stock purchase rights .....	—	—	(12)
Two-for-one stock split .....	(59)	—	—
Common stock dividends declared .....	(309)	(308)	(311)
Preferred stock dividends declared, net of taxes .....	(33)	(34)	(34)
<b>Reinvested earnings at end of year</b> .....	<b>\$ 3,531</b>	<b>\$ 3,156</b>	<b>\$ 3,413</b>

See Notes to Consolidated Financial Statements on pages 21 through 30.

## **CONSOLIDATED BALANCE SHEETS**

(In millions)

J.C. Penney Company,  
Inc. and Subsidiaries

## **CONSOLIDATED STATEMENTS OF REINVESTED EARNINGS**

(In millions)

# **CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

J.C. Penney Company,  
Inc. and Subsidiaries

For the Year	1992	1991	1990
<b>Operating activities</b>			
Net income .....	\$ 777	\$ 80	\$ 577
Nonrecurring items and cumulative effect of accounting change .....	—	695	—
Deferred tax effects .....	—	(268)	—
Depreciation and amortization .....	308	314	299
Amortization of original issue discount .....	58	53	46
Deferred taxes .....	42	100	(246)
Change in cash from:			
Customer receivables .....	411	413	(288)
Customer receivables sold (amortized) .....	(36)	(214)	800
Inventories, net of trade payables .....	(27)	(293)	(89)
Other assets and liabilities, net .....	(93)	(13)	(86)
	<u>1,440</u>	<u>867</u>	<u>1,013</u>
<b>Investing activities</b>			
Capital expenditures .....	(453)	(515)	(637)
Investment in asset-backed certificates .....	(419)	—	—
Other investments .....	—	7	3
	<u>(872)</u>	<u>(508)</u>	<u>(634)</u>
<b>Financing activities</b>			
Increase (decrease) in short term debt .....	436	(433)	(384)
Issuance of long term debt .....	280	500	500
Payments of long term debt .....	(677)	(104)	(187)
Common stock issued (retired), net .....	39	7	(225)
Preferred stock retired .....	(18)	(13)	(7)
Redemption of preferred stock purchase rights .....	—	—	(12)
Dividends paid, preferred and common .....	(342)	(342)	(335)
	<u>(282)</u>	<u>(385)</u>	<u>(650)</u>
<b>Net increase (decrease) in cash and short term investments .....</b>	<b>286</b>	<b>(26)</b>	<b>(271)</b>
<b>Cash and short term investments at beginning of year .....</b>	<b>111</b>	<b>137</b>	<b>408</b>
<b>Cash and short term investments at end of year .....</b>	<b>\$ 397</b>	<b>\$ 111</b>	<b>\$ 137</b>
<b>Supplemental cash flow information</b>			
Interest paid .....	\$ 265	\$ 267	\$ 287
Interest received .....	\$ 71	\$ 22	\$ 24
Income taxes paid .....	\$ 322	\$ 259	\$ 478

See Notes to Consolidated Financial Statements on pages 21 through 30.

The dominant portion of the Company's business consists of selling merchandise and services to consumers through department stores that include catalog departments.

**Basis of presentation.** On March 10, 1993, the Board of Directors declared a two-for-one split of the Company's common stock. The stock split in the form of a stock dividend will be payable on May 1, 1993 to stockholders of record on April 12, 1993. Financial data in this Annual Report has been restated to reflect the stock split.

**Basis of consolidation.** The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

**Definition of fiscal year.** The Company's fiscal year ends on the last Saturday in January. Fiscal year 1992 ended January 30, 1993, 1991 ended January 25, 1992, and 1990 ended January 26, 1991. They comprised 53 weeks, 52 weeks, and 52 weeks, respectively. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

**Retail sales.** Retail sales include merchandise and services, net of returns, and exclude sales taxes.

**Earnings per common share.** Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends. The number of shares used in the computation of fully diluted earnings per share was 258 million in 1992, 256 million in 1991, and 260 million in 1990.

**Cash and short term investments.** Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments. The carrying value of these instruments approximates market value due to their short maturities.

**Merchandise inventories.** Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

**Depreciation.** The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, 10 per cent for selling fixtures and equipment, and 20 per cent for data center equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

**Deferred charges.** Expenses associated with the opening of new stores are written off in the year of the store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

**Nonrecurring items.** Nonrecurring items amounted to \$395 million in 1991. There were no non-recurring items in 1992 or 1990. Nonrecurring items in 1991 included recognition of the costs to dispose of certain real estate properties, the write-off of investments in several experimental businesses, and costs associated with consolidating and streamlining various Company activities.

**Fair value of financial instruments.** The Financial Accounting Standards Board issued Statement No. 107, *Disclosure about Fair Value of Financial Instruments*, in December 1991. This standard requires disclosure of fair value of financial instruments, for which it is practicable to estimate fair value. The Company adopted this standard in 1992 and the required disclosure is included in the appropriate section for each significant category of financial instruments.

**Income taxes.** The Financial Accounting Standards Board issued Statement No. 109, *Accounting for Income Taxes*, in February 1992. Statement No. 109 requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements. The Company will adopt this statement in the first quarter of 1993. It is expected that the impact of adopting this statement, resulting from using current tax rates, will be a reduction in deferred taxes reflected on the balance sheet by about \$40 to \$60 million, and stockholders' equity will increase by the same amount. For further discussion, refer to page 29.

**Postemployment benefits.** The Financial Accounting Standards Board issued Statement No. 112, *Employers' Accounting for Postemployment Benefits*, in November 1992. This standard, which is required to be adopted in 1994, requires employers to recognize the obligation to provide postemployment benefits on an accrual basis if certain conditions are met. The impact on the Company of adopting this standard is expected to be immaterial.

## SUMMARY OF ACCOUNTING POLICIES

## RECENT ACCOUNTING STANDARDS

# NOTES TO THE FINANCIAL STATEMENTS

Receivables (In millions)	1992	1991	1990
Customer receivables serviced .....	\$ 4,068	\$ 4,489	\$ 4,897
Customer receivables sold .....	1,150	1,186	1,400
Customer receivables owned .....	2,918	3,303	3,497
Less allowance for doubtful accounts .....	69	79	74
Customer receivables, net .....	2,849	3,224	3,423
Other receivables .....	312	301	297
Receivables, net .....	\$ 3,161	\$ 3,525	\$ 3,720

The Company believes that the carrying value of existing customer receivables is the best estimate of fair value because of their short average maturity and bad debt losses can be reasonably estimated and have been reserved.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold during this period totaled \$1,400 million. No gain or loss was recognized at the date of sale. The \$250 million of certificates sold in 1988 were completely amortized by the end of 1992. As of January 30, 1993, \$1,150 million of the certificates were outstanding and the balance of the receivables in the trust was \$1,555 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

In 1992, the Company purchased a total of \$419 million of its asset-backed certificates in the open market. This investment is reflected in other assets in the consolidated balance sheet at amortized cost. The fair value of this investment at the end of 1992 was \$465 million based upon quoted market value.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the certificates (fixed rates ranging from 8.70% to 9.625%), absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Excess cash flows are used to establish reserve funds (\$101 million at January 30, 1993) that are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 30, 1993. Additionally, the Company has made available to the trust irrevocable letters of credit of \$138 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 30, 1993.

In connection with the sale of \$375 million of certificates in 1990, the Company entered into two offsetting interest rate swap agreements with a commercial bank, each having a notional principal amount of \$375 million. Because these interest rate swap agreements are offsetting, their net fair value at the end of 1992 was zero. Currently, the Company has no interest rate exposure from these offsetting interest rate swap agreements which terminate when all certificates have been settled in the year 2000. Under one swap the Company receives a fixed rate and pays the floating rate while under the second swap, the Company pays a fixed rate and receives the floating rate. Because of the offsetting nature of these swaps, there is no financial statement impact. The credit risk inherent in these swaps has been minimized by the selection of a high credit quality commercial bank as counter party. As long as the Company holds both swap positions, there will effectively be no credit risk since there is no net exchange of cash flows.

Merchandise inventories (In millions)	1992	1991	1990
Merchandise inventories, at lower of cost (FIFO) or market .....	\$ 3,540	\$ 3,211	\$ 3,062
LIFO reserve .....	(282)	(314)	(405)
Merchandise inventories, at LIFO cost .....	\$ 3,258	\$ 2,897	\$ 2,657

Substantially all of the Company's inventories are measured using the last-in, first-out (LIFO) method of inventory valuation. For 1991 and 1992, the Company applied internally developed indices that more accurately measure increases and decreases in its own retail prices. From 1974 through 1990, the Company used the Bureau of Labor Statistics price indices applied against inventory selling values to arrive at an inventory valuation. The impact on the individual prior years presented and the cumulative effect of this change on reinvested earnings for 1991 and 1992 is not determinable. However, the effect of using the internal indices instead of the Bureau of Labor Statistics price indices at the end of 1991 was to increase net income by approximately \$100 million, or 39 cents per share.

Properties (In millions)	1992	1991	1990
Land .....	\$ 210	\$ 203	\$ 194
Buildings			
Owned .....	1,992	1,814	1,640
Capital leases .....	237	244	247
Fixtures and equipment .....	2,686	2,633	2,552
Leasehold improvements .....	545	570	576
	5,670	5,464	5,209
Less accumulated depreciation and amortization .....	1,945	1,862	1,709
Properties, net .....	\$ 3,725	\$ 3,602	\$ 3,500

At January 30, 1993, the Company owned 237 retail stores, four catalog distribution centers, two store distribution centers, and its home office facility.

<b>Capital expenditures</b> (In millions)	<b>1992</b>	<b>1991</b>	<b>1990</b>
Land .....	\$ 8	\$ 7	\$ 25
Buildings .....	189	209	110
Fixtures and equipment .....	269	237	400
Leasehold improvements .....	27	52	64
Total capital expenditures .....	\$ 493	\$ 505	\$ 599

Expenditures for existing stores, primarily modernizations and updates, were \$76 million in 1992, as compared with \$134 million in 1991 and \$309 million in 1990. Expenditures for new stores opened in 1992, 1991, and 1990 were \$130 million, \$172 million, and \$154 million, respectively.

<b>Accounts payable and accrued expenses</b> (In millions)	<b>1992</b>	<b>1991</b>	<b>1990</b>
Trade payables .....	\$ 944	\$ 610	\$ 663
Accrued salaries, vacations, profit-sharing, and bonuses .....	438	385	398
Taxes, including income taxes .....	199	190	197
Workers' compensation and public liability insurance .....	116	112	89
Common dividend payable .....	77	77	77
Other .....	321	256	248
Total .....	\$ 2,095	\$ 1,630	\$ 1,672

<b>Short term debt</b> (In millions)	<b>1992</b>	<b>1991</b>	<b>1990</b>
Commercial paper .....	\$ 887	\$ 414	\$ 842
Master notes and other .....	20	57	62
Short term debt .....	\$ 907	\$ 471	\$ 904
Average borrowings .....	\$ 1,154	\$ 754	\$ 1,277
Peak outstanding .....	\$ 1,675	\$ 1,489	\$ 1,665
Average interest rates .....	3.7%	5.6%	8.1%

<b>Long term debt</b> (In millions)	<b>1992</b>	<b>1991</b>	<b>1990</b>
Original issue discount			
Zero coupon notes and 6% debentures, due 1992 to 1994 and 2006, \$700 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.2% .....	\$ 401	\$ 359	\$ 441
Debentures and notes			
7.2% to 8.875%, due 1991 to 2022 .....	396	269	289
9% to 10%, due 1992 to 2021 .....	1,750	2,007	1,617
Guaranteed LESOP notes, 8.17%, due 1998* .....	447	509	566
Present value of commitments under capital leases .....	141	160	175
Other .....	36	50	47
Long term debt .....	\$ 3,171	\$ 3,354	\$ 3,135
Average interest rates .....	10.5%	10.2%	10.3%

\*For further discussion, see LESOP on page 27.

The fair market value for long term debt at the end of 1992, excluding capital leases, exceeded the recorded amount by \$265 million. The fair value of these instruments was determined based on the interest rate environment and the Company's credit rating at January 30, 1993.

The Company has in place interest rate swap contracts that were entered into shortly after the issuance of \$250 million aggregate principal amount of 8.25 per cent sinking fund debentures in August 1992. These are four year agreements with a notional principal amount totaling \$250 million. Under the swap agreements, the Company receives a fixed rate payment and disburses a floating

rate payment. The counter parties to these contracts are high credit quality commercial banks. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent. The accounting treatment for these contracts, which serve to hedge the 8.25 per cent debentures, is to record the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized. The fair value of these interest rate swaps at the end of 1992 was \$4 million.

<b>Changes in long term debt</b> (In millions)	<b>1992</b>	<b>1991</b>	<b>1990</b>
<b>Increases</b>			
7.2% to 10% notes, due 1997 to 2022 .....	\$ 280	\$ 500	\$ 500
Amortization of original issue discount .....	43	53	46
Other .....	—	5	—
	<u>323</u>	<u>558</u>	<u>546</u>
<b>Decreases</b>			
Transfers to current maturities of long term debt .....	—	237	75
8.375% to 12.75% debentures, bonds, and notes, due 1995 to 2002, called in 1992 .....	423	—	—
Other, including LESOP amortization .....	83	102	91
	<u>506</u>	<u>339</u>	<u>166</u>
Net increase (decrease) in long term debt .....	\$ (183)	\$ 219	\$ 380

<b>Maturities of long term debt</b> (In millions)	<b>Long term debt</b>	<b>Capital leases</b>
1993 .....	\$ 2	\$ 23
1994 .....	352	24
1995 .....	2	18
1996 .....	118	19
1997 .....	267	15
1998 to 2002 .....	1,016	63
Thereafter .....	974	25
Total .....	<u>\$ 2,731</u>	<u>187</u>
Less future interest and executory expenses .....		46
Present value .....		<u>\$ 141</u>

**Committed bank credit facilities** available to the Company as of January 30, 1993, amounted to \$1.25 billion. The Company has \$750 million available to it through an extendible International Revolving Credit Facility Agreement which currently expires at the end of 1994. In addition, the Company has \$500 million of confirmed lines of credit available. Both the International Revolving Credit Facility Agreement and confirmed lines of credit support commercial paper borrowing arrangements and neither was in use as of January 30, 1993.

**Preferred stock.** In 1988, a leveraged employee stock ownership plan (LESOP) was created (see page 27 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to twenty shares of common stock for each share of preferred stock. The conversion price is \$30.00 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, are payable semi-annually on January 1 and July 1, and yield 7.9 per cent. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity.

**The preferred dividend** is payable semi-annually at an annual rate of \$2.37 per common equivalent share. Preferred dividends declared were \$53 million in 1992, \$54 million in 1991, and \$55 million in 1990; on an after tax basis, the dividends amounted to \$33 million in 1992, \$34 million in 1991, and \$34 million in 1990.

In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for five cents per share totaling \$12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/400 of a share of Series A junior participating preferred stock at a price of \$140. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

**Common stock.** The quarterly common dividend was 33 cents per share in 1992, 1991, and 1990, or an indicated annual rate of \$1.32 per share in each year. Common dividends declared were \$309 million in 1992, \$308 million in 1991, and \$311 million in 1990. On March 10, 1993, the Board of Directors increased the quarterly common dividend to 36 cents per share, or an indicated annual rate of \$1.44 per share. The Board of Directors also declared on March 10, 1993 a two-for-one stock split in the form of a stock dividend payable May 1, 1993 to stockholders of record on April 12, 1993. The stock split has been reflected on the Company's consolidated balance sheet as a reduction of reinvested earnings of \$59 million and as an addition to common stock of the same amount, reflecting 50 cents per share for the outstanding shares at January 30, 1993.

Changes in outstanding common stock	Shares (In thousands)			Amounts (In millions)		
	1992	1991	1990	1992	1991	1990
Balance at beginning of year .....	<b>233,302</b>	233,122	240,694	<b>\$ 857</b>	\$ 850	\$ 865
Two-for-one stock split.....	—	—	—	<b>59</b>	—	—
Common stock issued .....	<b>1,476</b>	180	358	<b>39</b>	7	12
Common stock purchased and retired .....	—	—	(7,930)	—	—	(27)
Balance at end of year.....	<b>234,778</b>	233,302	233,122	<b>\$ 955</b>	\$ 857	\$ 850

There were approximately 52,000 stockholders of record at year end 1992. In addition, the Company's savings plans, including the LESOP, had 100,000 participants and held 34.6 million shares of the Company's common stock. The savings plans also held 1.1 million shares of preferred stock, convertible into 22.2 million shares of common stock. On a combined basis, these plans held approximately 22 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1992.

**Equity Compensation Plan.** Under the 1989 Equity Compensation Plan (Plan), ten million shares of common stock were reserved for issuance. The Plan provides for the ability to grant a number of different types of options, such as: incentive stock options, nonqualified stock options, stock appreciation rights, tax benefit rights, and discount options. No tax benefit rights or discount options have been granted under the Plan. The 1991 stock option grant was a multiple grant. There was no annual grant made in 1992 nor is one expected to be made in 1993. The Plan also provides for grants of stock options and restricted stock awards to members of the Board of Directors not otherwise employed by the Company. Stock options are generally exercisable after six months, except the 1991 multiple stock options which are not exercisable until 1994. No new options may be granted under the Plan after May 31, 1993. The Board of Directors has approved a new 1993 Equity Compensation Plan and a new 1993 Non-Associate Directors' Equity Plan, subject to stockholder approval at the annual meeting on May 21, 1993. The 1993 Equity Compensation Plan will reserve 11.6 million shares for issuance.

	1992		1991		1990	
	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price
<b>Stock options</b>						
Balance at beginning of year.....	<b>9,490</b>	<b>\$ 26.31</b>	3,820	\$ 24.11	2,998	\$ 20.38
Granted .....	<b>574</b>	<b>35.10</b>	6,048	27.29	1,090	31.91
Exercised .....	<b>(974)</b>	<b>21.02</b>	(206)	12.85	(254)	13.96
Expired and cancelled .....	<b>(246)</b>	<b>27.66</b>	(172)	28.20	(14)	19.16
Balance at end of year .....	<b>8,844</b>	<b>\$ 27.42</b>	9,490	\$ 26.31	3,820	\$ 24.11

The Plan also provides for the ability to grant stock awards. Under the Plan and a predecessor plan, the Company issued to its officers a total of 830,000 shares of restricted stock awards since 1987 which generally vested over a five year period. The awards have conditions and restrictions which are designed to encourage officers to stay in the Company's service and retain stock ownership.

	1992		1991		1990	
	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales
<b>Credit sales</b>						
JCPenney credit card .....	<b>\$ 8.4</b>	<b>46.6</b>	\$ 7.9	49.3	\$ 8.4	51.8
American Express, MasterCard, and Visa .....	<b>2.4</b>	<b>13.2</b>	2.0	12.3	1.8	11.2
Total .....	<b>\$10.8</b>	<b>59.8</b>	\$ 9.9	61.6	\$10.2	63.0

<b>Key JCPenney credit card information</b> (In millions)	1992	1991	1990
Number of accounts serviced with balances .....	<b>17.5</b>	18.3	19.3
Total customer receivables serviced .....	<b>\$ 4,068</b>	\$ 4,489	\$ 4,897
Bad debt expense .....	<b>\$ 171</b>	\$ 240	\$ 201
Per cent of customer charges .....	<b>1.9</b>	2.8	2.2
Average account balances (in dollars) .....	<b>\$ 231</b>	\$ 244	\$ 253
Average account maturity (months) .....	<b>4.1</b>	4.7	4.8

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's credit card base, and their dispersion across the country.

<b>Interest expense</b> (In millions)	1992	1991	1990
Short term debt .....	<b>\$ 43</b>	\$ 42	\$ 103
Long term debt .....	<b>281</b>	288	228
Income on short term investments .....	<b>(48)</b>	(19)	(26)
Interest capitalized .....	<b>(14)</b>	(12)	(11)
Other, net* .....	<b>(4)</b>	9	7
Interest expense, net .....	<b>\$ 258</b>	\$ 308	\$ 301

\*1992 includes \$28 million of interest income from the Company's investment in asset-backed certificates.

<b>Rent expense</b> (In millions)	1992	1991	1990
Minimum rent on noncancellable operating leases ....	<b>\$ 244</b>	\$ 251	\$ 248
Rent based on sales .....	<b>35</b>	33	36
Minimum rent on cancellable personal property leases .....	<b>114</b>	91	83
Real estate taxes and common area costs .....	<b>127</b>	120	113
Total .....	<b>\$ 520</b>	\$ 495	\$ 480

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

<b>Minimum annual rents under noncancellable operating leases and subleases</b> (In millions)	Gross rents	Net rents*
1993 .....	\$ 254	\$ 179
1994 .....	248	176
1995 .....	221	154
1996 .....	199	137
1997 .....	183	126
Thereafter .....	1,091	810
Total .....	<u>\$ 2,196</u>	<u>\$ 1,582</u>
Present value .....		\$ 950
Weighted average interest rate .....		10%

\*Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

Retirement plans (In millions)	1992	1991	1990
Pension			
Service cost .....	\$ 46	\$ 37	\$ 39
Interest cost .....	122	114	105
Actual (return) loss on assets .....	(90)	(332)	18
Net amortization and deferral .....	(90)	180	(176)
Pension credit .....	(12)	(1)	(14)
Postretirement health care			
Service cost .....	6	5	n/a
Interest cost .....	27	26	n/a
Total .....	33	31	16*
LESOP expense .....	49	48	47
Total retirement plans .....	\$ 70	\$ 78	\$ 49

\*Pay-as-you-go basis

**Pension plan.** JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

In 1992, the Company modified several pension plan assumptions due to lower inflation and a lower interest rate environment. The discount rate was reduced from 9 per cent to 8 per cent, while the salary progression rate was reduced from 6 per cent to 4 per cent. The combined impact of these changes increased the Company's obligation at year end 1992. Accordingly, the Company expects to make a cash contribution to the plan in 1993. This will be the first contribution in nine years.

**Postretirement health care benefits.** The Company's retiree health care plan (Retiree Plan) covers medical and dental services and eligibility for benefits is based on age and years of service. The Retiree Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of employees, Company contributions toward the cost of retiree coverage will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Retiree Plan is funded on a pay-as-you-go basis by the Company and employee contributions. The Company adopted the Financial Accounting Standards Board Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, for its Retiree Plan in 1991.

In 1992, the Company modified several postretirement health care assumptions. The discount rate was lowered from 9 per cent to 8 per cent and the health care trend rate was lowered from 13 per cent to 12 per cent for 1993 with gradual reductions to 6 per cent by 2003 and beyond. The health care trend rate change represents a slight modification from previous assumptions because of favorable experience and a lower inflation environment. The changes in plan assumptions increased the Company's obligation at year end 1992. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by \$18 million and would result in \$2 million additional expense for 1992.

**LESOP.** The Company's LESOP is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed \$700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase 28 million common shares of the Company in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the consolidated balance sheet. A like amount of "Guaranteed LESOP obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly.

The amount of compensation cost recorded by the Company represents its cash contribution to the LESOP.

The following table sets forth the status of the Company's retirement plans:

	December 31		
Retirement plans (In millions)	1992	1991	1990
Pension			
Present value of accumulated benefits			
Vested .....	\$ 1,227	\$ 976	\$ 767
Non-vested .....	73	67	62
	<u>\$ 1,300</u>	<u>\$ 1,043</u>	<u>\$ 829</u>
Present value of actuarial benefit obligation .....	<u>\$ (1,694)</u>	<u>\$ (1,373)</u>	<u>\$ (1,156)</u>
Net assets at fair market value .....	1,585	1,561	1,284
Unrecognized transition asset, net of unrecognized losses .....	259	(64)	(19)
Net prepaid pension cost .....	<u>\$ 150</u>	<u>\$ 124</u>	<u>\$ 109</u>
Postretirement health care benefits			
Accumulated benefit obligation			
Retirees .....	\$ 205	\$ 191	
Fully eligible active participants .....	82	77	
Other active participants .....	43	42	
	330	310	
Unrecognized net loss .....	(7)	—	
Net liability .....	<u>\$ 323</u>	<u>\$ 310</u>	
Key assumptions			
Rate of return on pension plan assets .....	9.5%	9.5%	9.5%
Discount rate .....	8.0%	9.0%	10.0%
Salary progression rate .....	4.0%	6.0%	6.0%

	Savings plans			Pension		
	December 31			December 31		
Total assets and equity (In millions)	1992	1991	1990	1992	1991	1990
JCPenney preferred and common stock ...	\$ 2,200	\$ 1,720	\$ 1,540	\$ —	\$ —	\$ —
Equity securities .....	103	79	53	1,232	1,188	917
Fixed income investments .....	1,061	902	823	275	279	267
LESOP loan obligation, including accrued interest of \$20, \$21, and \$24 .....	(498)	(560)	(617)	—	—	—
Other assets, net .....	37	32	24	78	94	100
Net assets .....	<u>\$ 2,903</u>	<u>\$ 2,173</u>	<u>\$ 1,823</u>	<u>\$ 1,585</u>	<u>\$ 1,561</u>	<u>\$ 1,284</u>

	Savings plans			Pension		
	December 31			December 31		
Changes in fair value of net assets (In millions)	1992	1991	1990	1992	1991	1990
Net assets at beginning of year .....	\$ 2,173	\$ 1,823	\$ 2,377	\$ 1,561	\$ 1,284	\$ 1,351
Company contribution .....	49	48	47	—	—	—
Participants' contributions .....	169	156	153	—	—	—
Gains and (losses) .....	794	400	(475)	93	332	(18)
LESOP interest expense .....	(40)	(45)	(50)	—	—	—
Benefits paid .....	(242)	(209)	(229)	(69)	(55)	(49)
Net assets at end of year .....	<u>\$ 2,903</u>	<u>\$ 2,173</u>	<u>\$ 1,823</u>	<u>\$ 1,585</u>	<u>\$ 1,561</u>	<u>\$ 1,284</u>

<b>Income tax expense</b> (In millions)	<b>1992</b>	1991	1990
Current			
Federal .....	<b>\$ 371</b>	\$ 196	\$ 403
State and local .....	<b>62</b>	62	61
	<b>433</b>	258	464
Deferred			
Federal .....	<b>30</b>	(29)	(193)
State and local .....	<b>19</b>	(25)	(16)
	<b>49</b>	(54)	(209)
Total income tax expense .....	<b>\$ 482</b>	\$ 204	\$ 255
Effective tax rate .....	<b>38.3%</b>	43.5%	30.6%

<b>Reconciliation of tax rates</b>	Amounts (In millions)			Per cent of pre-tax income		
	<b>1992</b>	1991	1990	<b>1992</b>	1991	1990
Federal income tax statutory rate .....	<b>\$ 428</b>	\$ 159	\$ 283	<b>34.0</b>	34.0	34.0
State and local income taxes, less federal income tax benefit .....	<b>53</b>	25	29	<b>4.2</b>	5.1	3.5
Reduction of deferred taxes on installment sales .....	—	—	(52)	—	—	(6.3)
Interest, net of tax, on prior years' audit adjustments .....	—	21	—	—	4.6	—
Tax credits and other .....	<b>1</b>	(1)	(5)	<b>.1</b>	(.2)	(.6)
Total income tax expense .....	<b>\$ 482</b>	\$ 204	\$ 255	<b>38.3</b>	43.5	30.6

Taxes other than income taxes, over half of which were payroll taxes, totaled \$386 million in 1992, as compared with \$372 million in 1991 and \$363 million in 1990.

Deferred taxes consist principally of accelerated depreciation and accounting for leases.

The Financial Accounting Standards Board issued Statement No. 109, *Accounting for Income Taxes*, in February 1992. This standard superseded Statement No. 96, *Accounting for Income Taxes*. Statement No. 109 requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). Deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. The Company did not elect to adopt Statement No. 96 nor has it yet adopted Statement No. 109, which requires adoption by the first quarter of 1993. If the liability method required by Statement No. 109 had been applied in 1992, deferred taxes reflected on the balance sheet would have been reduced by approximately \$40 to \$60 million, and stockholders' equity would have increased by the same amount, resulting from using current tax rates.

Additionally, this standard will improve the 1993 effective income tax rate slightly by the tax effect of dividends on allocated LESOP shares. However, if the proposed corporate tax rate increase from 34 to 36 per cent is enacted, the effective tax rate will increase in 1993. The increase in the statutory rate will result in higher taxes on operating income in 1993 as well as additional tax expense for the revaluation of deferred taxes on the balance sheet as required by this standard. The standard permits either a restatement of previously issued financial statements or the inclusion of the cumulative effect of changing to the new standard as a separate component of net income in the year the standard is adopted. The Company will use the cumulative effect method upon adoption of this standard in the first quarter of 1993.

## OTHER BUSINESSES

**JCPenney Insurance** markets life, health, and credit insurance through direct response. At the end of the year, there were 4.5 million policies and certificates in force, an increase of 13.8 per cent from the 1991 year end. Premiums rose substantially in 1992 to record levels. Pre-tax income surpassed \$100 million and assets totaled over \$1 billion for the first time in 1992. JCPenney Insurance has maintained a conservative investment policy of investing in only high quality securities and is well positioned for continued future growth. JCPenney Life Insurance Company has been rated "A" (excellent) by A.M. Best. JCPenney Life Insurance Company became a federally licensed Canadian company in 1992 and continued to grow its marketing programs with banks and retailers.

**JCPenney National Bank** offers Visa and MasterCard credit cards. At the end of the year, about 359 thousand credit cards were active.

**JCP Realty, Inc.** is engaged in the development and operation of real estate through participation in joint ventures. At year end, JCP Realty had interests in about 60 shopping center projects.

<b>Pre-tax income (loss) of other businesses</b> (In millions)	<b>1992</b>	1991	1990
JCPenney Insurance .....	<b>\$ 101</b>	\$ 79	\$ 55
JCPenney National Bank .....	<b>24</b>	13	16
JCP Realty, Inc. ....	<b>13</b>	(4)	(9)
Total .....	<b>\$ 138</b>	\$ 88	\$ 62

<b>Assets of other businesses</b> (In millions)*	<b>1992</b>	1991	1990
JCPenney Insurance, principally investments .....	<b>\$1,033</b>	\$ 857	\$ 764
JCPenney National Bank, principally bankcard receivables .....	<b>614</b>	600	578
JCP Realty, Inc. investments in real estate joint ventures .....	<b>99</b>	97	97
Total .....	<b>\$1,746</b>	\$1,554	\$1,439

\*Included in other assets on the consolidated balance sheet.

<b>Liabilities of other businesses</b> (In millions)*	<b>1992</b>	1991	1990
JCPenney Insurance, principally policy and claims reserves .....	<b>\$ 617</b>	\$ 493	\$ 436
JCPenney National Bank, principally certificates of deposit .....	<b>552</b>	549	544
JCP Realty, Inc. ....	<b>170</b>	148	133
Total .....	<b>\$1,339</b>	\$1,190	\$1,113

\*Included in other liabilities on the consolidated balance sheet.

## QUARTERLY DATA

(Unaudited)	First			Second			Third			Fourth		
(In millions except per share data)	1992	1991	1990	1992	1991	1990	1992	1991	1990	1992	1991	1990
<b>Retail sales</b> .....	<b>\$ 3,793</b>	3,433	3,530	<b>3,789</b>	3,456	3,580	<b>4,342</b>	3,937	3,995	<b>6,085</b>	5,375	5,260
Per cent increase (decrease) .....	<b>10.5</b>	(2.7)	5.7	<b>9.6</b>	(3.5)	4.1	<b>10.3</b>	(1.4)	(1.6)	<b>13.2</b>	2.2	(0.1)
<b>Total revenue</b> .....	<b>\$ 4,075</b>	3,715	3,801	<b>4,052</b>	3,727	3,834	<b>4,603</b>	4,200	4,247	<b>6,355</b>	5,653	5,528
Per cent increase (decrease) .....	<b>9.7</b>	(2.3)	6.3	<b>8.7</b>	(2.8)	4.5	<b>9.6</b>	(1.1)	(1.2)	<b>12.4</b>	2.3	0.2
LIFO gross margin .....	<b>\$ 1,294</b>	1,172	1,257	<b>1,230</b>	1,104	1,187	<b>1,457</b>	1,316	1,368	<b>1,988</b>	1,768	1,584
LIFO gross margin, per cent of retail sales ..	<b>34.1</b>	34.2	35.6	<b>32.4</b>	32.0	33.2	<b>33.6</b>	33.4	34.2	<b>32.7</b>	32.9	30.1
Selling, general, and administrative expenses, per cent of retail sales .....	<b>31.5</b>	33.8	32.5	<b>31.9</b>	33.6	32.8	<b>29.1</b>	31.1	31.9	<b>24.6</b>	25.6	26.6
<b>Income before cumulative effect of accounting change</b> .....	<b>\$ 136</b>	80	154	<b>80</b>	31	83	<b>186</b>	116	134	<b>375</b>	37	206
<b>Net income (loss)</b> .....	<b>\$ 136</b>	(104)	154	<b>80</b>	31	83	<b>186</b>	116	134	<b>375</b>	37	206
<b>Income per share before cumulative effect of accounting change</b>												
Primary .....	<b>\$ .54</b>	.31	.60	<b>.31</b>	.10	.32	<b>.75</b>	.46	.54	<b>1.55</b>	.12	.84
Fully diluted.....	<b>\$ .52</b>	.31	.57	<b>.31</b>	.10	.31	<b>.70</b>	.46	.51	<b>1.42</b>	.12	.77
<b>Net income (loss) per common share</b>												
Primary .....	<b>\$ .54</b>	(.48)	.60	<b>.31</b>	.10	.32	<b>.75</b>	.46	.54	<b>1.55</b>	.12	.84
Fully diluted.....	<b>\$ .52</b>	(.48)	.57	<b>.31</b>	.10	.31	<b>.70</b>	.46	.51	<b>1.42</b>	.12	.77
<b>Dividends per common share</b> .....	<b>\$ .33</b>	.33	.33	<b>.33</b>	.33	.33	<b>.33</b>	.33	.33	<b>.33</b>	.33	.33
<b>Common stock price range</b>												
High .....	<b>\$ 34</b>	28	35	<b>36</b>	29	34	<b>38</b>	27	29	<b>40</b>	29	24
Low.....	<b>\$ 27</b>	24	32	<b>32</b>	24	29	<b>33</b>	24	19	<b>36</b>	24	20

# **FIVE YEAR FINANCIAL SUMMARY**

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

	1992	1991 <sup>1</sup>	1990	1989 <sup>2</sup>	1988 <sup>3</sup>
<b>Results for the year</b>					
Total revenue .....	\$ 19,085	17,295	17,410	17,058	15,945
Retail sales .....	\$ 18,009	16,201	16,365	16,103	14,833
Per cent increase (decrease) .....	11.2	(1.0)	1.6	8.6	(3.3)
LIFO gross margin, per cent of retail sales .....	33.1	33.1	33.0	34.8	34.5
FIFO gross margin, per cent of retail sales .....	33.0	32.5	33.3	34.5	35.3
Selling, general, and administrative expenses, per cent of retail sales .....	28.6	30.4	30.6	29.7	30.1
Interest expense, net, per cent of retail sales .....	1.4	1.9	1.8	1.9	2.1
Depreciation and amortization .....	\$ 308	314	299	275	258
Income taxes .....	\$ 482	204	255	368	385
Income before cumulative effect of accounting change .....	\$ 777	264	577	802	807
Net income .....	\$ 777	80	577	802	807
<b>Earnings per common share</b>					
<b>Primary</b>					
Before cumulative effect of accounting change .....	\$ 3.15	.99	2.30	3.16	3.01
Net income .....	\$ 3.15	.20	2.30	3.16	3.01
<b>Fully diluted</b>					
Before cumulative effect of accounting change .....	\$ 2.95	.99	2.16	2.93	2.96
Net income .....	\$ 2.95	.20	2.16	2.93	2.96
<b>Per common share</b>					
Dividends .....	\$ 1.32	1.32	1.32	1.12	1.00
Stockholders' equity .....	\$ 19.17	17.33	18.38	17.81	16.02
Return on stockholders' equity .....	18.6	12.0	13.3	20.8	16.0
<b>Financial position</b>					
Receivables, net .....	\$ 3,163	3,525	3,720	4,281	4,179
Merchandise inventories .....	\$ 3,258	2,897	2,657	2,613	2,201
Properties, net .....	\$ 3,725	3,602	3,500	3,237	3,034
Capital expenditures .....	\$ 493	505	599	519	487
Total assets .....	\$ 13,563	12,520	12,325	12,698	12,254
Total debt .....	\$ 4,078	4,062	4,114	4,207	4,064
Stockholders' equity .....	\$ 4,705	4,188	4,394	4,353	3,957
<b>Number of common shares outstanding at year end</b>					
	234	234	234	240	246
<b>Weighted average common shares</b>					
Primary .....	236	234	236	244	262
Fully diluted .....	258	256	260	268	272
<b>Number of employees at year end</b>					
(In thousands) .....	192	185	196	198	190

<sup>1</sup>Excluding the effect of nonrecurring items and the cumulative effect of an accounting change, after tax income was \$528 million or \$2.00 per share on a fully diluted basis.

<sup>2</sup>Excluding the effect of nonrecurring items, after tax income was \$822 million or \$3.00 per share on a fully diluted basis.

<sup>3</sup>Excluding the effect of nonrecurring items, after tax income was \$668 million or \$2.45 per share on a fully diluted basis.

Financial data has been restated to reflect the two-for-one stock split declared on March 10, 1993.

## FIVE YEAR OPERATIONS SUMMARY

J.C. Penney Company,  
Inc. and Subsidiaries

	1992	1991	1990	1989	1988
<b>JCPenney stores</b>					
Number of stores					
Beginning of year .....	<b>1,283</b>	1,312	1,328	1,355	1,378
Openings .....	<b>33</b>	38	46	38	43
Closings .....	<b>(50)</b>	(67)	(62)	(65)	(66)
End of year .....	<b>1,266</b>	1,283	1,312	1,328	1,355
Gross selling space (In million sq. ft.) .....	<b>114.4</b>	114.5	114.4	112.8	113.3
Sales including catalog desks (In millions) .....	<b>\$ 15,698</b>	14,277	14,616	14,469	13,364
Comparative store sales per cent increase (decrease) <sup>1</sup> .....	<b>9.7</b>	(1.5)	0.0	6.8	(4.9)
Sales per gross square foot <sup>1</sup> .....	<b>\$ 137</b>	125	127	127	117
<b>Catalog</b>					
Number of catalog units					
JCPenney stores .....	<b>1,266</b>	1,283	1,312	1,328	1,355
Freestanding sales centers and merchants .....	<b>640</b>	697	626	501	392
Drug stores .....	<b>128</b>	134	136	126	117
Other, principally outlet stores .....	<b>14</b>	16	16	16	15
Total .....	<b>2,048</b>	2,130	2,090	1,971	1,879
Number of distribution centers .....	<b>6</b>	6	6	6	6
Distribution space (In million sq. ft.) .....	<b>11.4</b>	11.4	11.4	11.4	11.4
Sales (In millions) .....	<b>\$ 3,166</b>	3,002	3,220	3,205	2,918
<b>Drug stores</b>					
Number of stores					
Beginning of year .....	<b>530</b>	487	471	434	407
Openings .....	<b>30</b>	46	22	39	34
Closings .....	<b>(12)</b>	(3)	(6)	(2)	(7)
End of year .....	<b>548</b>	530	487	471	434
Gross selling space (In million sq. ft.) .....	<b>5.2</b>	5.0	4.8	4.7	4.4
Sales (In millions) .....	<b>\$ 1,383</b>	1,192	1,097	987	882
Sales per gross square foot <sup>1</sup> .....	<b>\$ 211</b>	201	198	189	185

<sup>1</sup>1992 is presented on a 52 week basis.

The Company continued its commitment to the health and well being of the communities in which it does business. This commitment is reflected through our charitable contributions, community service programs, and minority supplier development.

**Charitable contributions.** During 1992, the Company's charitable contributions were \$22 million nationwide. Education and support of health and welfare issues are the primary focus of our contributions. JCPenney support of health and welfare organizations, including the Company's contribution to more than 1,000 United Way organizations, represented 34 per cent of total contributions. Penney associates pledged \$7 million to local United Way organizations in addition to the Company's contributions.

Support of educational efforts accounted for more than 25 percent of total contributions. Major commitments included support for a national education initiative and an investment in a school-based management project with the Fort Worth, Texas Independent School District. \$620 thousand was donated to 610 colleges and universities through the Matching Gift Program, and 200 children of longer term JCPenney associates received scholarships to colleges of their choice.

**Community service.** The Company continued to promote volunteerism through the James Cash Penney Awards, which recognize associates for outstanding volunteer activities in their communities. The Golden Rule Award Program provides similar recognition to community volunteers outside the Company in 153 JCPenney markets. The two programs contributed approximately \$1.2 million to local charitable organizations.

**Environmental affairs.** JCPenney is committed to doing business in an environmentally responsible manner. At the center of this commitment stands a determination to make environmental considerations a part of corporate decision making and policy.

Leadership for this effort comes from an Environmental Affairs Committee composed of senior officers. Under their direction, the Company continuously seeks to assure that its operations, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and communities where JCPenney does business. The Committee has set forth a Statement of Principles on the Environment reflecting the Company's commitment to these goals. Copies of the Statement may be obtained as indicated on page 37 of this Annual Report.

The Company also has an Environmental Issues Task Force consisting of various subcommittees that are studying specific matters such as merchandise packaging, recycling, and trash disposal.

Significant progress has been made towards the Company's environmental goals, especially in recycling. For example, JCPenney is using recycled-content paperboard for all apparel, jewelry, and gift boxes. An environmental packaging recognition award for JCPenney associates has been introduced to encourage the reduction of unnecessary merchandise packaging. In addition, stores are recycling most of the corrugated cardboard boxes in which merchandise shipments are received. The Company also continues to explore sources of high-quality, reasonably priced recycled-content paper for its advertising supplements, catalogs, and other printed matter, and to utilize them where feasible.

An office paper and plastic recycling program is in place in the Company's new home office in Plano, Texas and in a number of other facilities around the country, and a test has been launched in retail stores. State and local officials have recognized one such program, developed by associates at the Manchester, Connecticut, Catalog Distribution Center, as a model for other businesses.

Also, the Company has formal guidelines for evaluating and substantiating environmental themes and claims proposed for merchandise, packaging, labeling, and promotions.

**Equal employment opportunity.** The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J.C. Penney Company, Inc. and wholly-owned subsidiaries, excluding facilities in Puerto Rico and Canada. The information provided delineates minority and female representation in major job categories.

Employment information	Total employed		Per cent female		Per cent minority	
	1992	1988	1992	1988	1992	1988
Officials, managers, and professionals .....	18,804	18,884	46.1	42.0	11.3	9.8
Management trainees .....	575	1,178	65.6	61.2	27.3	17.5
Sales workers .....	97,971	101,227	87.9	88.0	12.8	15.8
Office and clerical workers .....	30,266	25,221	89.0	91.6	17.3	15.8
Technicians, craft workers, and operatives .....	26,976	27,442	85.0	82.4	20.9	19.9
Laborers and service workers .....	14,226	13,364	45.5	42.5	25.2	19.8
Total .....	188,818	187,316	80.3	79.2	18.1	16.8

**Minority and female suppliers.** Since 1972, JCPenney has had an active Minority Supplier Development Program. During 1992, purchases from minority-owned businesses were \$390 million, representing relationships with 1,980 suppliers. In addition to the purchasing of products and services, the Company had relationships with 36 minority-owned banks. Through our annual awards program, the Company recognized nine associates and seven minority-owned businesses for their contributions to the Minority Supplier Development Program. Additionally, during 1992 purchases from female-owned businesses were \$115 million, representing relationships with 480 suppliers.

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The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

**Independent Board of Directors.** In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. All but one director have principal occupations or employment outside of the Company. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allow the Board to most effectively represent the interests of all the Company's stockholders.

**Independent committees.** The principal standing committees of the Board of Directors are composed entirely of directors who are not employees of the Company. These committees include the Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

**Executive compensation.** A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1993 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

**Confidential voting.** The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations which identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, or employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

## CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

### M. Anthony Burns<sup>2,4,5</sup>

Chairman, President and Chief Executive Officer, Ryder System, Inc.

### Colby H. Chandler<sup>3,4</sup>

Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

### William R. Howell

Chairman of the Board and Chief Executive Officer

### Vernon E. Jordan, Jr.<sup>2,3,4</sup>

Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

### George Nigh<sup>2,3,4</sup>

President, University of Central Oklahoma and Formerly Governor of Oklahoma

### Jane C. Pfeiffer<sup>3,4,5</sup>

Independent Management Consultant

### A. Kenneth Pye<sup>1,2</sup>

President, Southern Methodist University

### Charles S. Sanford, Jr.<sup>1,3</sup>

Chairman, Bankers Trust New York Corporation and Bankers Trust Company

### Joseph D. Williams<sup>1,2,5</sup>

Retired. Formerly Chairman and Chief Executive Officer, Warner-Lambert Company

### Boris Yavitz<sup>1,2,5</sup>

Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

## OFFICE OF THE CHAIRMAN

### William R. Howell

Chairman of the Board and Chief Executive Officer

### James E. Oesterreicher

President of JCPenney Stores and Catalog

### W. Barger Tygart

Senior Executive Vice President, Director of Merchandising, Quality Assurance and Distribution

### Robert E. Northam

Executive Vice President, Chief Financial Officer

### Terry S. Prindiville

Executive Vice President, Director of Support Services

## JCPENNEY STORES AND CATALOG

### John T. Cody, Jr.

Executive Vice President, Director of JCPenney Stores

### Thomas D. Hutchens

Executive Vice President, Director of Merchandising

### Gale Duff-Bloom

Senior Vice President, Associate Director of Merchandising

### Gary L. Davis

President, Northwestern Region

### William J. Ferguson

President, Southwestern Region

### R. H. Seaman

President, Southeastern Region

### Richard C. Sherwood

President, Northeastern Region

### William E. McCarthy

President, Catalog Division

### James L. Hailey

President, Women's Division

### James J. Kennedy

President, Home and Leisure Division

### J. Raymond Pierce

President, Men's Division

### Henry H. Scott

President, Children's Division

### J. Thomas Arthur

Vice President, Director of Merchandising, Catalog Division

### Marshall Beere

Vice President, Director of Merchandising, Women's Division

### Andrew Cumming

Vice President, Director of Merchandising, Children's Division

### Marilee J. Cumming

Vice President, Director of Merchandising, Women's Division

### Julius L. Debbs

Vice President, Director of Merchandising, Home and Leisure Division

### Kay E. Egan

Vice President, Director of Merchandise Development, Home and Leisure Division

### Peter G. Fenlon

Vice President, Director of Catalog Sales and Operations

### David E. Fulcomer

Vice President, Director of Merchandising, Men's Division

### Jerri M. Goad

Vice President, Director of Marketing and Visual Communications

### Anton C. Haake

Vice President, Director of Quality Assurance

### William J. Kelly

Vice President, Director of Catalog Advertising and Publications

### Ralph W. LaRovere

Vice President, Director of Merchandising, Home and Leisure Division

### Peter M. McGrath

Vice President, Director of Merchandise Development, Children's Division

### Randy S. Ronning

Vice President, Director of Merchandising, Men's Division

### Kenneth T. Russo

Vice President, Director of International Sourcing

### Joseph P. Sapienza

Vice President, Director of Merchandise Development, Men's Division

### Lucinda C. Sapienza

Vice President, Director of Merchandising, Children's Division

### Donald F. Scaccia

Vice President, Director of Merchandise Development, Women's Division

### Gerald L. Shores

Vice President, Director of Merchandising, Women's Division

### N. Tice Siegel, Jr.

Vice President, Director of Merchandising, Special Assignment

### Michael Todres

Vice President, Director of Distribution and Non-Resale Purchasing

## COMPANY-WIDE

### Richard T. Erickson

Executive Vice President, Director of Personnel and Administration

### Charles R. Lotter

Senior Vice President, Secretary and General Counsel

### Ted L. Spurlock

Senior Vice President, Director of Financial Services and Company Communications

### William J. Alcorn

Vice President, Director of Credit

### Charles L. Brown

Vice President, Director of Auditing

### James P. Bryant

Vice President, Director of Taxes

### Thomas A. Clerkin

Vice President, Director of Planning, Research, and Specialty Retailing

### David V. Evans

Vice President, Director of Information Systems

### Leo A. Gispanski

Vice President, Controller

### Edward T. Howard

Vice President, Director of Investor Relations

### Russell H. Longyear

Vice President, Director of Communications

### N. Michael Lowenkron

Vice President, Director of Real Estate

### Donald A. McKay

Vice President, Treasurer

### Richard P. O'Leary

Vice President, Director of Construction Services

### James C. Schwaninger

Vice President, Director of Government Relations

### M. Christopher Sears

Vice President, Director of Public Affairs and Executive Assistant to the Chairman

## ASSISTANT SECRETARIES

### Frank J. Bonet

### Thomas M. Comerford

### Cornelius T. Dorans

### Alfred O. Goellner

### Margaret R. Johnson

### Eugene P. McGreal

## ASSISTANT TREASURERS

### Robert B. Cavanaugh

### Stephen F. Walsh

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors; reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.

2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.

3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.

4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which acts under certain of the Company's incentive compensation and retirement plans.

5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside directors.



**The JCPenney Home Office**

**T**he Company's new Home Office, seen above in a nighttime view, was completed in 1992. It is situated on a 122 acre site planted with more than 5,000 indigenous American shade and ornamental trees and shrubs. The exterior of the building is of architectural pre-cast concrete with dark red aggregate chips and limestone and granite trim. The roof is copper and will be left to age naturally. Below the main entrance of the building is a six acre lake which controls storm water runoff from the site. In addition to a permanent collection of twentieth century American Art, which will be rotated periodically throughout the interior public spaces, the building has temporary exhibition space. Associates also have access to a medical facility, fitness center, biking and jogging trails, and a child care center.

## **ANNUAL MEETING**

Our Annual Meeting of Stockholders will be held at 10 a.m., Friday, May 21, at the Company's new Home Office located at 6501 Legacy Drive, Plano, Texas 75024-3698. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 13, 1993.

## **EXCHANGE LISTINGS**

The New York Stock Exchange  
(Ticker symbol – JCP)

Brussels and Antwerp  
Stock Exchanges

## **REGISTRAR/TRANSFER AGENT**

Chemical Bank  
450 West 33rd Street  
New York, New York 10001

## **SUPPLEMENTAL INFORMATION**

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for 1992

- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- JCPenney Community Partners, the Company's social responsibility report
- JCPenney's Special Report on Its Environmental Responsibility

Requests for the above should be addressed to:

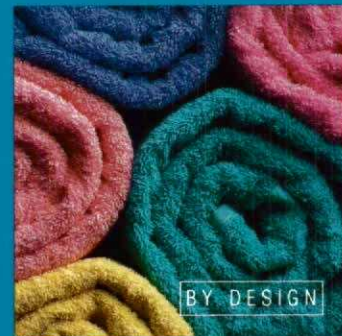
Ms. Nancee F. Dixon  
Public Relations Department  
J.C. Penney Company, Inc.  
P.O. Box 10001  
Dallas, Texas 75301-2304  
(214) 431-1488

Copies of J.C. Penney Funding Corporation's Annual Report are available from:

Mr. Jim Chassen  
J.C. Penney Funding Corporation  
P.O. Box 10001  
Dallas, Texas 75301-1304  
(214) 431-2025

Inquiries about your Company's Dividend Reinvestment Plan or your stockholder record should be forwarded to:

Chemical Bank  
Securityholder Relations Department  
P.O. Box 24935  
Church Street Station  
New York, New York 10249  
1-800-842-9470  
Monday-Friday, 8:00 a.m.-8:00 p.m.  
Eastern Time



J.C. Penney Company, Inc.  
1992 Annual Report